# 07

## MANAGEMENT OF THE SUPPLY CHAIN

## MANAGEMENT OF THE SUPPLY CHAIN

One of the essential means to ensure the company's sustainable growth is to guarantee the sustainability of its products throughout the entire value chain, which requires direct action by the Group in respect of the main players in its agricultural raw material supply chain, the strongest link in its business.

To secure this the Group acts on two fronts:

1. Acting directly with farmers to promote sustainable agriculture in environmental, economic and social aspects, and
2. Controlling the performance of its industrial suppliers in respect of corporate responsibility through internal or external audits and collaborating with them to secure continuous improvement.

### 1. SUSTAINABLE AGRICULTURAL RAW MATERIAL

The Group's activities in this area are currently focused almost exclusively on rice. Work is in progress on several projects, the Group's own projects or those in which it collaborates, as described below.

#### SAIRISI Project (Italy)

This project was begun towards the end of 2015 in collaboration with three partners (Unilever, Kellogg's and Migros) and will be developed over 2016.

Over 50 farmers participate in this project as direct or indirect raw material suppliers of the companies organising the project.

In the first phase, farmers were given a three-day training course based on the needs detected after analysing the results of the assessment made according to the SAI standard, with a view to improving their performance and, consequently, the sustainability of their farming activities.

The training was designed and given by the Italian National Rice Research Centre (Enterisi) and external experts from universities and NGOs. The subject matters covered included:

- Handling the soil
- Fertilization
- Protection of the crop
- Environment and biodiversity
- New Common Agricultural Policy (CAP).

This training will be supplemented with two field visits to check that good practices are being adopted and prove their effectiveness to the farmers.

#### Climate-Smart Agriculture" Project (Ebro delta)

This initiative is an extension of our participation and collaboration in the "Origins" project that Kellogg's began at the Ebro delta in 2013 (see 2014 report).

The central goal of this project, co-financed by both companies and to be developed in 2015 and 2016, is to reduce water consumption and the GHG emissions given off by the rice fields.

The work is being done according to the following outline:

- Directly measure the GHG emissions in the rice fields in standard conditions, testing several mitigation strategies related with the irrigation system to establish better crop practices and thus reduce emissions and water consumption.

- Use these direct measurements to create an empirical model used to predict both the relative level of GHG emissions according to crop conditions and the impact of several mitigation strategies.

The GHG emissions measured directly in the rice fields in 2015, in the standard crop conditions of the Ebro delta zone, were much lower than the emissions obtained for the same conditions using two existing empirical models. In the light of these results, we have started assessing the two models with the results of direct measurements made in other rice-growing areas similar to the Ebro delta to see whether the same differences are observed and thus determine whether or not those models are adequate for our purpose.

### Food safety of peasant families in Phu Tho (Vietnam)

This project was developed in 2014 and 2015 with collaboration from the NGO CODESPA Foundation in the province of Phu Tho, where 84% of the population depends on rice-growing for their food and 30% live in poverty.

The project aimed to improve the agricultural productivity of the rice crop in order to generate surpluses and, consequently, revenue, so as to eradicate the frequent food crises suffered in this region owing to the very low crop yields.

For this purpose, the powder fertilizers traditionally applied on the surface have been replaced with compact basal fertilizer capsules that gradually release the nutrients throughout the development of the plant, thereby avoiding loss through evaporation and leaching, which cause yield loss and negative environmental impact (GHG emissions and contamination of rivers).

This goal was achieved by creating and developing local markets establishing commercial relationships between different players: producers who compact the fertilizers in capsules, distributors who supply the product, commercial promoters who inform farmers of the benefits of the product and agricultural experts who provide training for farmers in the appropriate method for using the fertilizer in order to achieve optimum yields.

The results obtained over three harvests have been very positive:

- 3,780 farmers (320 ha) used 89,070 kg of compact fertilizer.
- Depending on the zone, yields improved by 13-25%, increasing farmers' revenues by 18-40%.

### EKTA Project (India)

Headed by our subsidiary Ebro India, the EKTA (Ebro Kissan -farmers- Training and Awareness) programme consists of providing training for farmers in an effective use of pesticides, one of the greatest problems facing the rice crop in that country.

EKTA was very well received among the farmers in the pilot phase and Ebro Foods aims to scale up progressively to embrace a larger number of farmers and increase the content (fertilization, irrigation, etc.).

### Environmental sustainability programme (Seville)

The second phase of the salinity project "Rice crop sustainability programme for the rice-growing area of Seville", which we began in 2011 in collaboration with the Andalusian Institute of Agricultural, Food and Fisheries Training and Research and Ecological Production (IFAPA), was completed in 2015.

In this second phase, we studied the impact of salinity on the different physiological stages of development of the plant: growing, reproduction and maturing periods.

The results showed that the negative effect of saline irrigation on yield is greater in the growing and reproduction stages, affecting different yield parameters in each stage, while the grain filling and maturing periods were barely affected. They also showed that saline irrigation in the first two stages lengthens the plant's growing cycle and crop water requirements.

The results of this study will be made available to the rice sector and farmers through the IFAPA website so that they can be used in irrigation management.

### Sustainable durum wheat contracts (France)

Our French subsidiary Panzani and one of its suppliers (cooperative) have started up a system of sustainable contracts for durum wheat growers. These contracts establish a premium of 5€/tonne for any farmers who apply the following sustainable crop-growing practices: use of certified seeds, soil analysis to optimise nitrogen fertilization and field monitoring of the level of plagues and plant disease to optimise phytosanitary treatment.

This initiative also includes calculation of the cooperative's carbon footprint and the development of optimum logistic solutions for delivering supplies to the Panzani plants.

These contracts will be gradually extended to 1000-1500 growers (20-25,000 hectares), covering a production of around 75,000 tonnes of durum wheat, approximately 20% of the volume purchased by Panzani in France.

## 2. PERFORMANCE OF INDUSTRIAL SUPPLIERS

Ebro Foods is working actively within and outside its consolidated group to ensure compliance with the corporate responsibility and sustainability parameters in its supply chain and that of its customers.

### Ebro Foods consolidated group

In order to guarantee better transparency for our stakeholders, all the subsidiaries in the rice division are registered as B members on the SEDEX platform (http://www.sedexglobal.com) and the Group's rice division is also conducting ethical audits on its production facilities.

The following audits were made in 2015:

| COMPANY | PLANT | STANDARD | AUDITOR |
|---|---|---|---|
| Herba Ricemills | Seville | WCA | Intertek |
| Ebro India | Taraori | SMETA 4-Pillar | Bureau Veritas |
| Herba Bangkok | Nong Khae | SMETA 4-Pillar | Bureau Veritas |
| Herba Bangkok | Nong Khae | Costco CoC | Elevate |
| Herba Bangkok | Nong Khae | Wal-Mart | Intertek |
| Mundi Riz (Marruecos) | Larache | SMETA 4-Pillar | Bureau Veritas |

The results of all these audits have been positive, highlighting the good practices observed at the plants in India and Morocco in safety training and the absence of gender-based discrimination, respectively.

The "Achievement Award" presented to the Herba Ricemills plant in Seville by Intertek after the WCA (Workplace Conditions Assessment) audit is also worthy of special mention.

### External suppliers

At the end of 2015, in development of the Group's Code of Conduct, the Ebro Foods board approved a Supplier Code of Conduct, of which all our suppliers will be informed during 2016. Following the provisions of that Code, the Group will embark on a supplier control and monitoring plan in 2016 through ethical audits. Suppliers will gradually be included in this audit plan according to their risk levels.

## OUR SUPPLY CHAIN

The information reported in this section only takes into account the supply chains of agricultural raw materials (rice and durum wheat) of Ebro Foods, which account for the bulk of the raw materials used by the Group.

Both rice and durum wheat are purchased from three types of 1st tier suppliers, which may vary according to the countries in which the raw material is sourced:

- Farmers or cooperatives
- Mills and/or plants
- Traders

In the countries in which we operate, most of the raw material is purchased on the local markets in which the company is established and directly from farmers or cooperatives.

There is relatively little variation from one year to the next in the pool of countries in which we source materials and do not operate and the direct suppliers we use in those countries and volumes purchased per supplier category. However, within those categories, the operators from whom we buy and the volumes bought from each one may very considerably depending on our needs in respect of price, quality, customer specifications, etc.

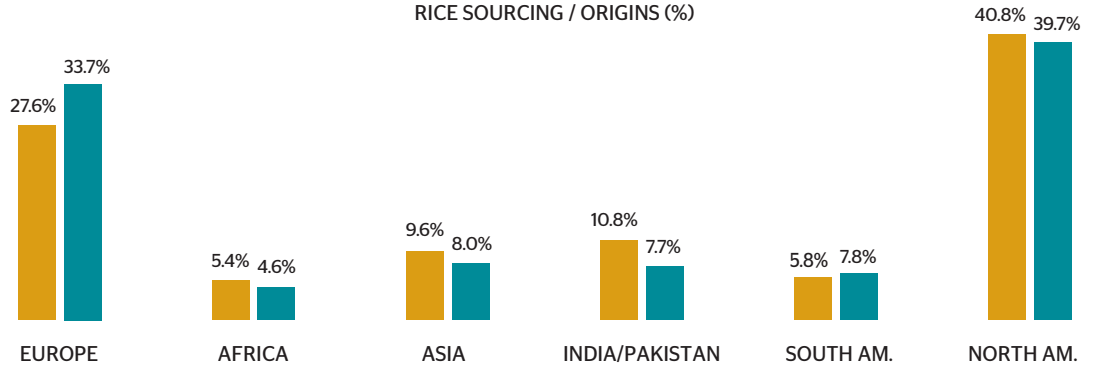
## VOLUMES BY ORIGIN

### Rice

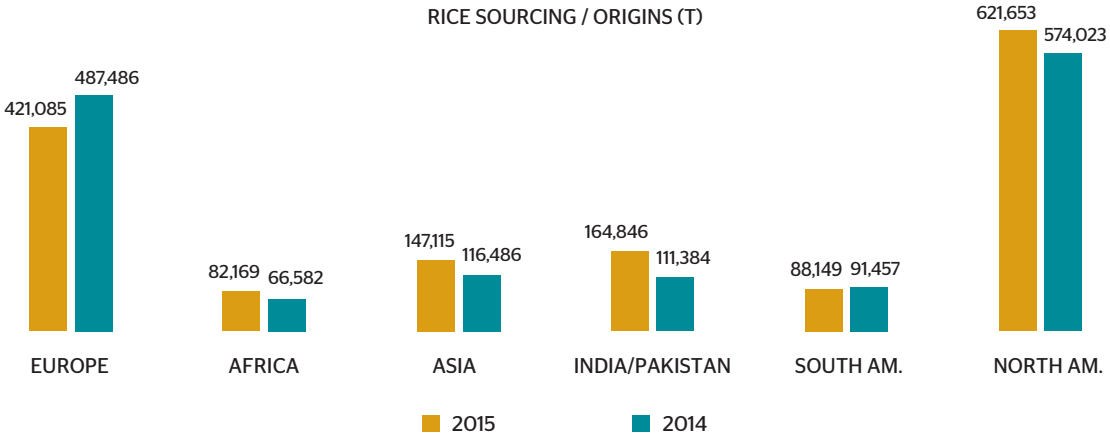
The rice supplies for the Ebro Foods Group have been very stable over the past two years in both total volume and volume by origin, our most important sourcing regions being North America and Europe (see Fig. 1).

| ORIGIN | 2015 (T) | 2014 (T) |
|---|---|---|
| Europe | 421,085 | 487,486 |
| North America | 621,653 | 574,023 |
| South America | 88,149 | 91,457 |
| India/Pakistan | 164,846 | 111,384 |
| Africa | 82,169 | 66,582 |
| South East Asia | 147,115 | 116,486 |
| **Total** | **1,525,017** | **1,447,417** |

FIGURE 1
RICE SOURCING / ORIGINS (%)




RICE SOURCING / ORIGINS (T)

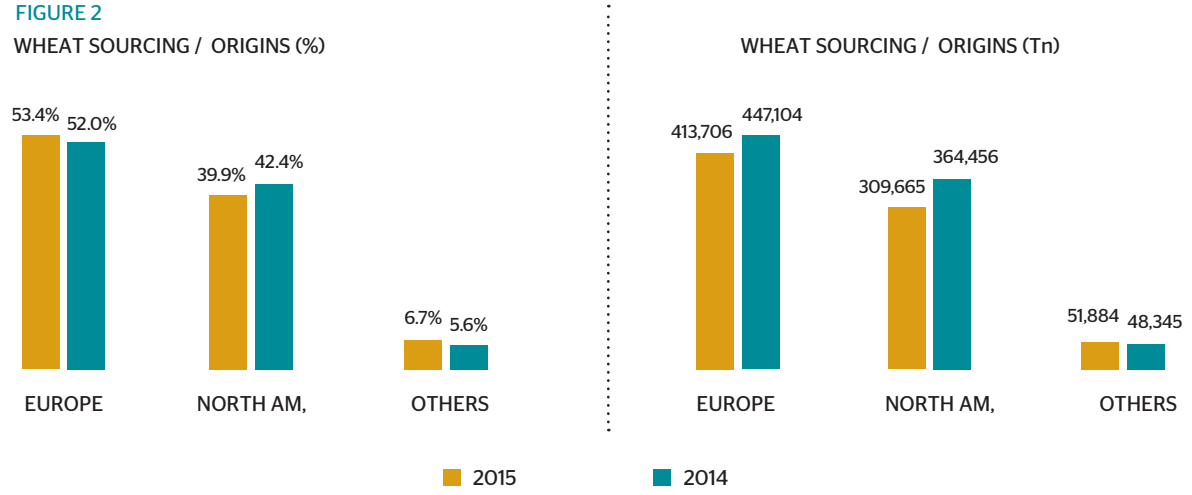


### Durum wheat

The Group sources its wheat mainly in Europe and North America, France and the USA being the two most important countries in purchase volume.

| ORIGIN | 2015 (T) | 2014 (T) |
|---|---|---|
| Europe | 413,706 | 447,104 |
| North America | 309,665 | 364,456 |
| Others | 51,884 | 48,345 |
| **Total** | **775,255** | **859,905** |

FIGURE 2

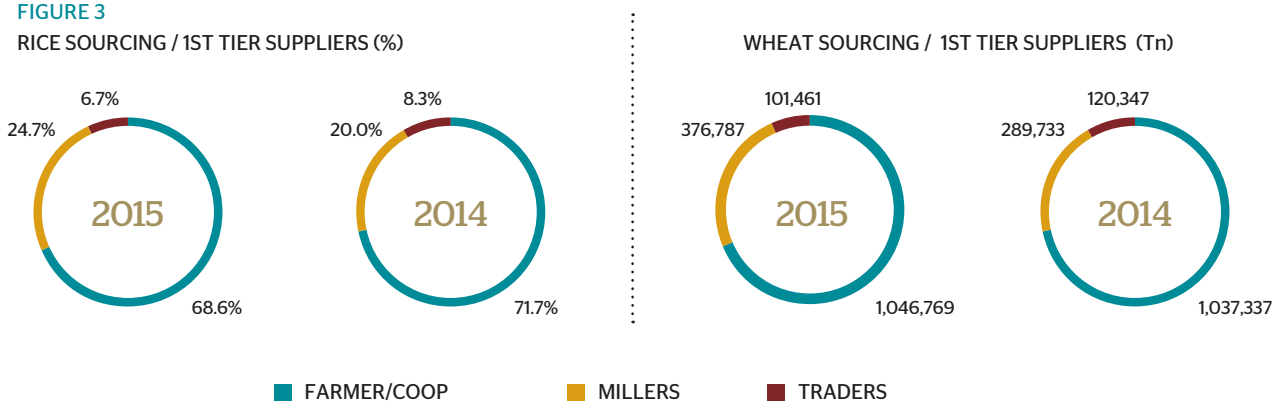



## VOLUMES BY SUPPLIER

### Rice

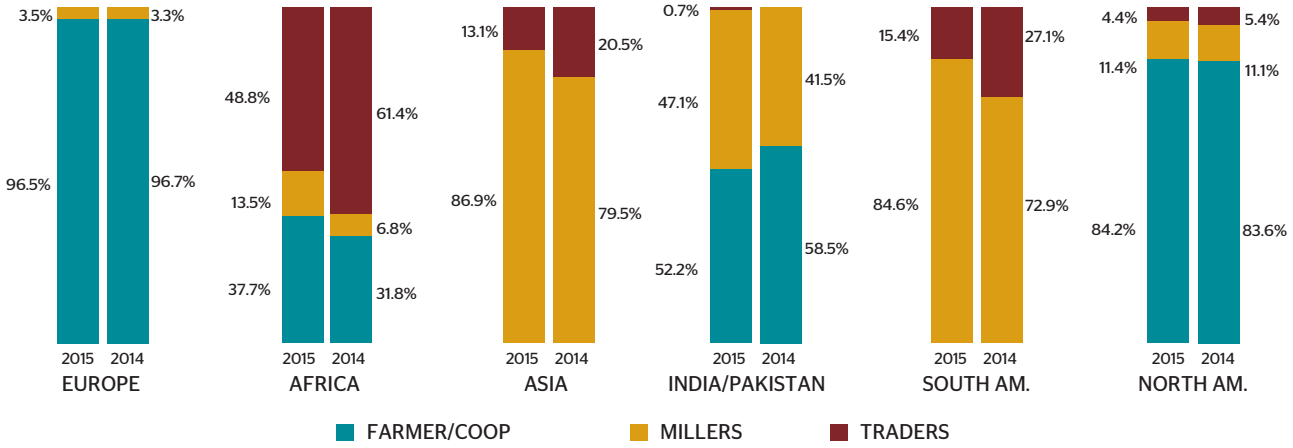
On a global level, the vast majority of the rice is bought directly from farmers or cooperatives and the rest from millers and traders (see Fig. 3).

FIGURE 3



At a disaggregated level, this volume/supplier distribution varies considerably from one geographical region to another, but remains relatively constant for each region between 2014 and 2015 (see Fig. 4).

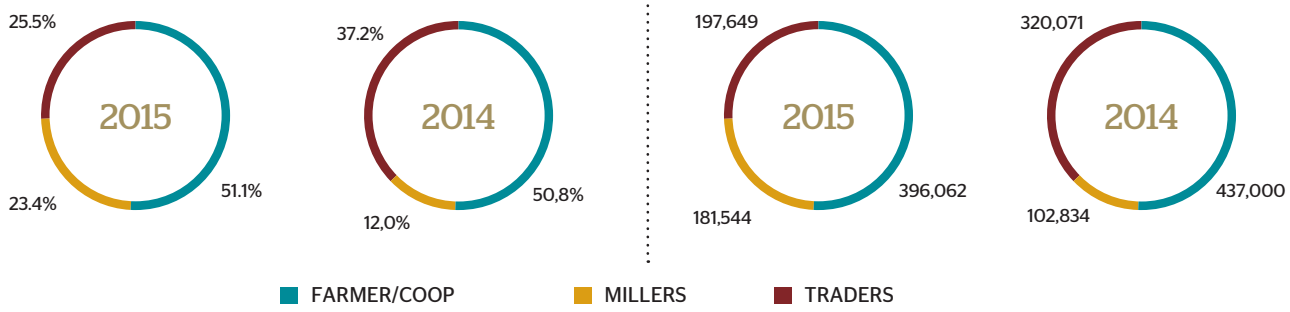
FIGURE 4
RICE SOURCING / 1ST TIER SUPPLIERS / ORIGINS (%)




## Durum wheat

Just as for rice, on a global level most of the wheat is sourced directly from farmers or cooperatives, although in a smaller proportion. The rest of the volume is bought from traders and millers.

FIGURE 5
WHEAT SOURCING / 1ST TIER SUPPLIERS (%)
WHEAT SOURCING / 1ST TIER SUPPLIERS (T)



At a disaggregated level, the direct suppliers are totally different for each geographical region: mainly farmers or cooperatives in Europe and traders in North America (see Fig. 6).

FIGURE 6
WHEAT SOURCING / 1ST TIER SUPPLIERS / ORIGINS (%)